FINANCIAL STRENGTHENING OF PANCHAYATS

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Unlike previous Central Finance Commissions, Fourteenth Finance commission made very sizeable allocations to Panchayats , that too only to the Gram Panchayats where the service delivery takes place. FC XIV allocated Rs. 200292 crores for the village Panchayats, which is more than 3 times the allocation provided to the Panchayats in the Thirteenth Finance Commission. It trusted the local governments for provision of basic services. Additionally, the FFC guideline clearly stated that the fund should not be parked with the state Government for more than 15 days. In case of delay, the states should pay interest to the GPs.

The idea of *Swaraj* and *Gana Rajya*, the self-governed peoples' republic was part of our freedom struggle and is embedded in debates of constituent assembly during the genesis of Constitution. It implied a stronger Panchayati Raj system capable of managing and governing themselves. However, the constitution couldn't as much support this liberal Gandhian view, as required, and consequently, the Panchayats found its place in the directive principles of states. The nation decided the path of growth and glory may not necessarily pass through Panchayat, assuming the growth engines will propel growth to one and all. However, the growing poverty and disparities in the decades after independence challenged this popular belief, forcing the leaders to sit-up and look for alternatives to 'growth engine theory'. Decentralisation of growth consequently emerged as an idea for more equitable development. Simultaneously, there was a growing realization that corruption and inefficiency in service delivery has considerably diluted the effectiveness in services provided. Therefore, a need was felt for better downward accountability of the service providers. These are some of the key process that once again brought the idea of Village Republic or Panchayati Raj Systems as a more efficient and decentralised way of development.

The devolution story in India began 25 years back with the path-breaking 73rd and 74th constitutional amendments, under which

the third tier of the government; Panchayat and Municipalities were constituted and significant powers and responsibilities were devolved to them. The village Panchayats leaders have demonstrated positive examples of ensuring economic development and social justice across the country. However, such examples are few and resultant of dynamic leadership, administrative support and community contribution. The Panchayati Raj institutions have experienced constraints of funds, clarity of functions and control over functionaries. The Central Finance Commission recommended for a share of resources for the PRIs and urban local governments after the constitutional amendments.

Fiscal Devolution to Local Governments:

The Fourteenth Finance Commission (FFC) made path breaking recommendations that promised a transformation in the functioning of panchayats. Over the previous Finance Commissions, there is a substantial increase in the quantum of resources allocated to the rural and urban local bodies as shown in the table given below:

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Purpose of The Grant:

The grant is provided in two parts: basic and performance grant. The basic grant provided are intended to be used to support and strengthen the delivery of basic services including water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths and street lightings, burial and cremation grounds and any other basic services within the functions assigned to them under relevant legislation. The guideline issued by the Ministry of Finance states that no expenditure will be incurred out of the basic grants except on basic services within the functions assigned to the local bodies under relevant legislation. The basic grant will be released to rural local bodies with 90 percentage weightage to 2011 population and 10 percentage weightage to the area.

The FFC has not distinguished between O&M and capital expenditure within the components of basic services. It is advised that the cost of technical and administrative support towards O&M and capital expenditure should not exceed 10% of the allocation to a Gram Panchayat or Municipality under any circumstance and the expenditure incurred only by the local body concerned. The Ministry of Finance has issued detailed guidelines for the States on proper utilization of the 10% for meeting the technical and administrative support. Based on the advisory list of activities, the States may issue priority list of activities for which these funds can be used depending on manpower and other infrastructure available in the panchayats. A negative list of activities has also been prepared and informed to reduce any significant deviance from the FFC recommendations.

The FFC also observed that as ever increasing share of the public money is devolved to the local bodies, there is an ever increasing need of accountability of these institutions. The performance grants are designed to serve the purpose of ensuring reliable audited accounts and data of receipts and expenditure and improvement in own revenues. The *eligibility* conditions *for* availing p*erformance grant* is that panchayats shall submit audited accounts and show increase in their own revenues. The State may issue further eligibility criteria for the panchayats to be eligible for the performance grant.

Decentralized Planning:

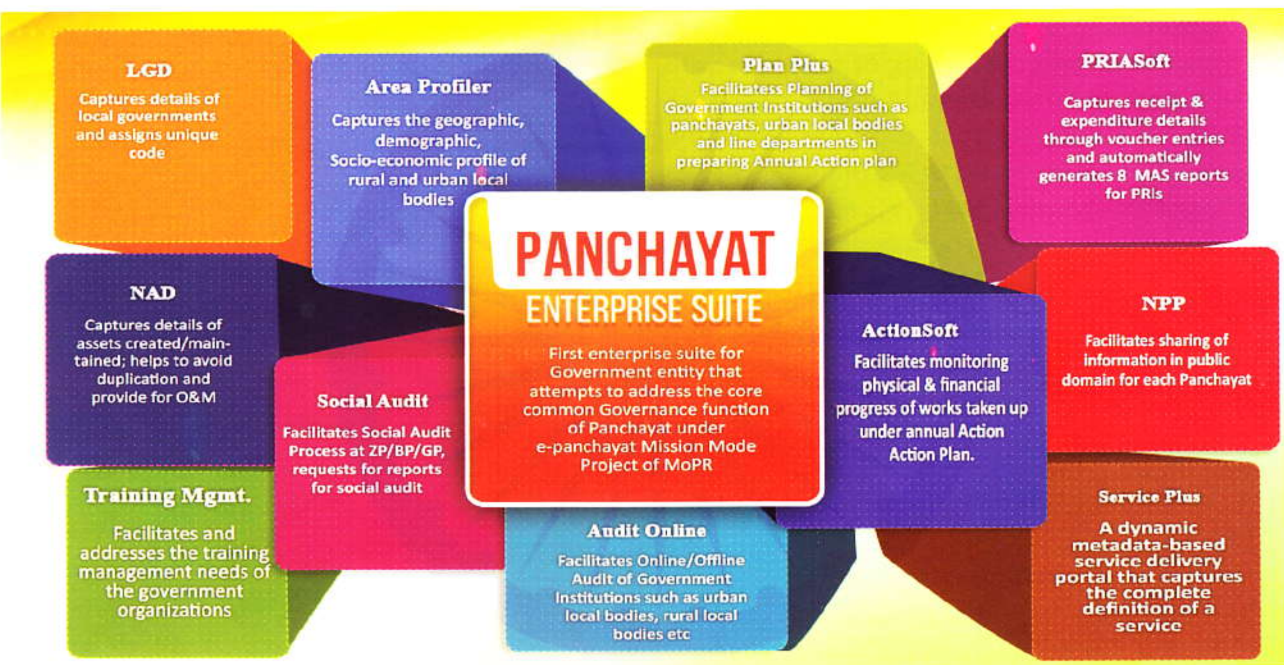
The Ministry of Finance issued guidelines for the release and utilization of the FFC grants to the local bodies. The directions stipulate that proper plans are to be prepared by the gram panchayats for the basic services within the functions devolved to them as per state Government laws before incurring expenditure under the FFC award.

These plans have to be participatory plans involving the community, particularly the Gram Sabha, in the formulation of priorities and projects. It will also have to ensure the mandates of social justice and economic development. The GP development plan (GPDP) will have to have a clear component addressing vulnerabilities of poor and marginalized people and their livelihood opportunities through an integrated poverty reduction plan.

State specific Guidelines have been framed to facilitate coordination of the various activities that need to be undertaken and arrangements that need to be made for the execution of a time bound action plan for preparation of the Gram Panchayat Development Plans. The guidelines developed by different states provide the vision and ambition of the states to empower the Panchayati Raj System. The institutional mechanism for facilitating and developing the GPDP are varied in different states. For instance, the state of MP had designed a state scheme named Panch Parmeswar predominantly utilising funds of the 13th FC, which was continued utilising the 14th FC resources. Telangana, a newly emerged state announced a scheme 'Gram Jyoti' in August 2015 utilising the 14th FC funds, stating that the scheme aims to "empower and strengthen Gram Panchayats to ensure better delivery of services." emphasized on institutional approach to strengthen the functions devolved to the GPs in the Panchayat Act which included functions like prevention of epidemics, registration of birth and death, child welfare, licenses and encroachments. Karnataka designed working groups on production sector, civic amenities and social justice. In Chhattisgarh, district level resource groups for technical support were envisaged similar to that of MP. Odisha proposed to establish planning unit at the GP level with the membership of the elected representatives, Panchayat functionaries as well as CBO, NGO and the GP standing committee members. Chhattisgarh stressed on need assessment of the marginalized groups in planning whereas Telangana proposed to simultaneously develop 'Special Development Plan for the SC/ST' for effective utilization of the SC/ST Sub plan.

Panchayat Enterprise Suite (PES) Application for GPDP:

The current planning system largely involves preparation of scheme wise plans at the district level often leading to lack of convergence with other ongoing schemes of the government. To address these concerns, the Ministry of Panchayati Raj has conceived a software viz, PlanPlus, the software application facilitates the consolidation and integration of all plans of all planning units. The GPDPs prepared by the panchayats are uploaded on the software and the citizens can also view the activities being planned in their respective areas. Currently, generation of plans through PlanPlus has been prescribed as one of the necessary conditions for release of performance grants. Action Soft is another PES Application which works in collaboration with Plan-Plus and captures the work execution flow, converges and



keeps track of flow of funds from different source s during implementation and brings about total transparency in the reporting of physical and financial progress of works. PRIA Soft is another PES application developed for managing receipts and expenditure of approved list of works through voucher entries.

Positive Outcomes:

With the FFC devolution to local bodies (LBs), there is an increase in the share of untied resources available with them. As a result, the panchayat will now have a larger say in how to spend the money. Some of the positive experiences can be summarized in the following manner:

1. With increased devolution to local governments, the per capita availability of funds has increased from Rs 96 per capita in Eleventh FC grant to Rs 240 per capita in the Twelfth FC to Rs 488 under the FFC. With increased per-capita availability of funding better standard of living of the rural population can be achieved by proper planning relating to expenditure on different sectors pertaining to development of the village.
2. The FFC mandates GPs to formulate a Gram Panchayat Plan prepared and approved by the Gram Sabhas. The panchayats have a greater autonomy to decide on which basic services it wants to spend the allocated funds.
3. The direct funds provided to the Gram Panchayats, without sharing of resources with the other tiers of Panchayati Raj System i.e. block and Zila Panchayats, substantially increased the availability of resources to the Gram Panchayats to deliver the basic services suggested by the FFC. Despite several restrictions and priorities imposed by respective states for use of 'otherwise flexible fund', Gram Panchayats used the funds judiciously, and created several good quality infrastructure at competing costs. The Grant also facilitated in tiding over the bare and essential needs, like drinking water to parched communities in Bundelkhand under severe drought or retaining connectivity by repairing an old and collapsing culvert in Jharkhand, or small repairs in old taps, cleaning of the only wells that provided drinking water etc. Gram Panchayats saved or even sneaked budgets from the other budget lines to meet these critical needs as often Panchayats were denied their critical priorities.

There are several examples of convergence achieved by the Panchayats locally, which was difficult, otherwise by utilising the resources of the other schemes like MGNREGS, PMAY etc. to improve the quality of services.

Further, the FFC recommends one-tenth of the grants to be performance-based. To be eligible for these grants, the LBs should provide audited accounts from previous years and demonstrate that it increased its own revenues. Therefore, the grant comes in the form of a reward for doing well rather than an aid to cover a failure. This is an incentive for the LGs to reinvent and become more accountable.

Challenges:

With a mechanism of fixed tranches for transfer of funds to the states, twice in a year, there should not be high underutilization of funds. However, the utilization of the FFC funds by the states governments allocated for the Village Panchayats has a large variation.

Over the last two completed years, Gujarat, Manipur and AP are high spenders followed by Tripura, Telangana and Haryana. Rests of the states

Table 1: Grants allocated to local bodies by different FFCs

Finance Commission	Grants to Panchayats (in crores)	Grants to ULBs (in crores)
FC X	4380.93	1000.00
FC XI	8000.00	2000.00
FC XII	20000.00	5000.00
FC XIII	63015.00	23111.00
FC XIV	200292.00	87143.8

were able to utilize less than half of the allocated resources. UP, the state with high concentration of the poor could utilize only 2.02% and progressive and rich state Maharashtra utilized only 3.76% of the funds transferred. As the data is drawn from the Plan Plus software of the Government of India where every state is expected to report their expenditure related to FFC in rural areas, there is possibility of under reporting. Many states have not reported their data as they have developed their own software for management of finances for Panchayat accounts such as Panchayat Darpan (Madhya Pradesh) and Panchtantra (Karnataka). This could also be one of the reasons for apparent underutilization.

Within the FFC grants, most states tied the grant to the priorities decided by the state. GPs have several developmental challenges and consequently several competing demands from different sections of the voters/citizens. As a result, maintenance of piped water supply, repair of water structures, repair of ponds, construction and repair of culverts, channelization of storm

Table 2: Utilization of FFC Grant: Consolidated

(Rupees in Crores)

State	2015-16		2016-17		2015-17	
	Total FFC grant received	Total expense incurred	Total FFC grant received	Total expense incurred	Total FFC grant received	Total expense incurred
Andhra Pradesh	17.21	5.41 (29.11%)	1292.32	840.63 (64.38%)	1309.53	846.04 (64.60%)
Chhattisgarh	506.7	325.71 (64.05%)	738.1	383.5 (50.91%)	1244.8	709.21 (56.97%)
Gujarat	851.32	687.27 (80.6%)	1252.18	930.61 (74.26%)	2103.5	1617.88 (76.91%)
Haryana	205.8	52.72 (25.62%)	796.36	502.7 (63.01%)	1002.16	55542 (55.42%)
Himachal Pradesh	1.01	0.09 (7.65%)	12.95	2.26 (14.53%)	13.96	2.35 (16.83%)
Jharkhand	138.26	22.22 (16.01%)	347.917	135.31 (48.71%)	486.177	157.53 (32.40%)
Maharashtra	91.82	2.35 (2.55%)	179.61	7.87 (4.26%)	271.43	10.22 (3.76%)
Manipur	21.86	14.26 (65.25%)	35.2	32.74 (92.99%)	57.06	47 (82.36%)
Odisha	853.13	187.16 (22.41%)	1096.39	221.9 (20.23%)	1949.52	409.06 (20.98%)
Rajasthan	2729.88	60.68 (2.22%)	2234.82	1158.1 (51.8%)	4964.7	1218.78 (24.54%)
Telangana	200.6	117.77 (36.75%)	812.26	476.63 (48.74%)	1012.86	594.4 (58.68%)
Tripura	1.06	0.8 (74.84%)	56.32	38.32 (68.05%)	57.38	39.12 (68.17%)
Uttarakhand	201.41	1.33 (0.66%)	271.93	92.69 (34.08%)	473.34	94.02 (19.86%)
Uttar Pradesh	1795.12	40.24 (2.24%)	2079.69	38.38 (1.99%)	3874.81	78.62 (2.02%)
All India	8419.22	1819.29 (21.27%)	12972.01	5669.63 (43.09%)	21391.23	7488.92 (35.009%)

(Source: Plan Plus website)

drains, deepening of ponds, repair of hand-pumps etc. or several other critical needs remain unaddressed, if certain states decide to focus on one of the services as a priority of the state.

Conclusion:

The Fourteenth Finance Commission recommendations are path breaking to strengthen local governments. Fiscal decentralization and the trust based approach have empowered our Gram Sabhas and Gram Panchayats to address the local needs. The devolution of funds has also had an impact on the effectiveness, responsiveness and quality of the public services delivered in rural areas. The formulation of GPDPs and digitization of Panchayat records through PES applications has made the system more transparent, accountable and effective. Through proper planning at the local level the funds devolved can be effectively utilized for more inclusive development. The state Governments should trust the village Panchayats and provide them flexibility to utilize the untied funds to meet the local needs. Decentralized planning will be a motivating exercise for the citizens if their demands are heard,accepted and fulfilled.

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PM addressed National Panchayati Raj Day

Panchayati Raj day was celebrated on 24th April,2018. The PM launched Rashtriya Gram Swaraj Abhiyan on this occasion. He saluted and gave his best wishes to about 2.5 Lakh panchayats in the country. He said that it was an important occasion for realizing the dreams of respected Bapu, because Mahatma Gandhi had identified India with its villages. **The winners of Rashtriya e-Panchayat Puraskar, and Gram Panchayat Vikas Puraskar Yojana under Sarvasreshtha Panchayat Puraskar Yojana were also felicitated.** Following are some excerpts from his speech on Panchayati Raj Day:

- Mahatma Gandhi had encouraged us to realize the dream of 'Gramoday to Rashtroday'. Government of India will support them for the development of their villages, the empowerment of the people of your villages and to fulfill the resolutions.
- The Panchayati Raj Day should be the day of taking resolutions.
- We are elected to form the government for serving the people. Therefore, if our power and time is put to the same work we can transform the face of our villages.
- Today the concern is about the proper utilization of the money within the specified time limit for the actual beneficiaries.
- There shall not be any family in the village that will not have a Jan Dhan bank account and insurance with minimum premium of 90 paise. If that family meets with an unfortunate incident, it will get a financial assistance of Rs. 2 lakh.
- All of us should strive to change the villages to change the country. All of us should make proper use of funds in the villages. I want all of us to move ahead with the mantra of 'Jai Jawan, Jai Kisan, Jai vigyan' in the villages.

The Prime Minister, Shri Narendra Modi addressing the gathering on the occasion of the National Panchayati Raj Day 2018, at Mandla, Madhya Pradesh on April 24, 2018.